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The following is based on a lecture which I gave at the Amerika-Institut, Berlin, on August 11, 1938 before a group of American professors headed by Professor Dr. Bruner of Teachers College, Columbia University, New York. It provides a short systematic sketch of the various measures of economic policy undertaken by the German Government in the course of the past few years in order to regulate production and consumption in accordance with the aims of German economic policy.

For more detailed information I refer the readers of this article to the Weekly Reports of the German Institute for Business Research (Institut für Konjunkturforschung, Berlin-Charlottenburg 2, Fasanenstr. 6)

W. B.

State and business

THE basis for all government intervention in business in Germany is to be found in the National-Socialist conception of the relation between business and the State. According to the German theory business is subordinated to the State. Formerly, it was believed that the fate of the State and of the nation lay in business, for it was said that business was of such great importance and so powerful that it controlled the State and determined State policies.

In the National-Socialist State the relation between business and State is just the contrary. Today the State or State policy controls or rules business.

I must emphasize that in National-Socialist eyes the State incorporates in itself no absolute value as is the case, for instance, in an absolute monarchy. The supreme value is the nation which we call in German *Volksgemeinschaft*, the community of the nation. The State is only the form of organization and the manifestation of the will of the people.

This means that the State is not concerned with economic conditions as long as they do not conflict with the welfare of the nation. The principle of private initiative has been maintained. However, where it seems necessary to bring business into line with the welfare of the nation, the

State will not hesitate to intervene and direct business into the desired channels. In Germany, contrary to the usual belief, we have no "planned economy", but rather a "directed" economy if I may use such an expression.

The aims

The aims of the present regulation of production can be summarized in a few words. First, the securing of supplies of raw materials for industry. All measures serving this aim are included in the Four-Years-Plan the aim of which is to make Germany as independent as possible of imports by increasing domestic production.

Second, an increase in domestic agricultural production with the aim of making Germany, as far as possible, self-sufficient in the field of foodstuffs.

Germany has only a few raw materials and has always been faced with the necessity of importing the greater part of her raw material requirements. But as you realize, imports can only be paid for out of export proceeds or other credit items in the balance of payments such as shipping, insurance, or proceeds from capital investments abroad. As a result of the War, Germany is no longer a creditor but a debtor country. In other words, she was burdened with a tremendous indebtedness and had at her disposal no great income from investments abroad, while her other income from abroad is today less than it was before the War. Germany must therefore limit her imports to the extent of her exports, with the consequence that Germany's raw material and foodstuffs imports are dependent on the amount of goods which other countries are able and willing to take from her in payment.

Indirect and direct Regulation of Production

The German government follows no definite theory in establishing the methods by which intervention in the field of production is to be accomplished. This is one of the most characteristic traits of National-Socialist economic policy. In combatting unemployment, the government did not follow one theory such as the theory of direct public works or the theory of the stimulation of private initiative, but followed both theories impartially according as to which seemed best at the time. The same is true of the regulation of production.

The various measures may be classified as: 1. indirect and 2. direct.

The State undertakes indirect measures when it intervenes not in production and capital investment themselves but in conditions which govern them.

There are four special groups of indirect measures:

1. Regulation of taxes, especially reduction of taxes.

For example, in order to revive automobile production, which was at an extremely low level, and thus to stimulate motorization in Germany, which had lagged far behind the level of motorization in other countries, as early as 1933 the Government abolished the tax on all new passenger cars, later extending this to all automobiles. This made automobiles much cheaper and increased the sales of the industry. In the last five years, these measures together with the economic upswing have brought about a great advance in automobile sales and a great improvement in German motorization. In 1932, only 19 out of every 1,000 people in Germany owned cars as compared with 41 in France and 37 in Great Britain; today, however, the figure for Germany is 35 in every 1,000, as compared with about 51 per thousand in France and Great Britain.

A further example of regulation of production by means of tax reductions was the exemption of short term capital goods from income tax. After 1933 the value of these goods could be deducted from taxable income of the individual and from the taxable profits of an enterprise. This stimulated the purchase of such goods and was a means of increasing the low activity of the capital goods industry. The elasticity of the National-Socialist economic policy can be seen in the fact that this measure was repealed as soon as the capital goods industry was fully employed.

2. The second means of indirect regulation of production is price policy. This can take place in two ways: by a reduction in costs and by an increase in, or guarantee of, sales prices. These methods have been chiefly used in the field of agriculture, where production reacts quickly to price changes. An example of this reduction may be seen in the prices for artificial fertilizer, farm machinery and agricultural implements. On the other hand, by a scaling of farm prices it has been possible to increase considerably the acreage given over to winter barley, the production of fiber plants and oil fruits, and the number of sheep.

3. Closely related to this price policy is tariff policy, the utilization of which is necessary where domestic goods compete with foreign products. This is particularly important in the case of agricultural products, the prices of which are considerably lower on the world market than in Germany. Special boards have been set up in order to compensate for these differences in prices, and are empowered to regulate imports.

4. The last method of indirect regulation of production is the prohibition of new private issues on the capital market. Since new issues are permitted only for special purposes all those branches of trade and industry which are shut off from the capital market are thus limited in their capital investment possibilities. They can only extend their plants, etc., to the degree that their own funds allow. Thus in 1933 a special board was set up under the control of the Reichsbank, to which application must be made before new issues are floated. Permission is only granted for private issues in the case of companies which serve the ends of the Four-Years-Plan, where, moreover, no other possibility of financing their work exists.

Capital investment policy

Among the large number of methods of directly influencing production, I have to mention first the government orders which predominate in some economic branches.

Apart from this a good deal of direct regulation of production by the Government consists of the regulation of capital investment activity.

Thus the regulation of capital investment activity really means a planned direction of capital investment. This was proved especially necessary when work was started on the Four-Years-Plan. In a certain sense capital investments were scaled according to urgency. Four-Years-Plan, rearmament and exports are the most important.

A number of measures have been introduced in this connection. They may be classified as follows: — There are capital investment prohibitions, the purpose of which is to prevent industries whose capacity is sufficient to cover demand, from extending their plants. This prevents needless using up of the limited capital and material available, and avoids overproduction and consequent disturbances of

the market. We have such capital investment prohibitions, for instance, in the paper industry, in the glass industry, in part of the textile industry and in part of the chemical industry.

In the second place the regulation of capital investments and production by profits and sales guarantees given by the government. I have already emphasized that National-Socialism adheres to the principle of private initiative. However this does not prevent the State, if it seems necessary, from relieving private business of some of the risk it runs in undertaking certain projects. These profits and sales guarantees given by the State are especially important in the production of staple fibre, motor spirit and synthetic rubber. The companies engaged in such production in Germany are private firms; their profits however, have, been guaranteed by the State to a certain extent, since their products are of great importance for the economic policy of the State.

In some fields the State itself has gone into production, and has for this purpose made capital investments. The principle that business is to be left as far as possible to private initiative does not mean that the State cannot engage in economic activity in certain fields of production and under certain specific conditions. This is the case, for example, in the field of iron ore production.

After the loss of territory in the War, only a small part of Germany's iron ore requirements could be covered by domestic production. In view of the fixed costs and prices prevailing and under the usual methods of exploitation only part of Germany's iron ore deposits could be mined with profit. The dependence on imports in the case of such an important field as iron ore had to be eliminated. But the conditions and problems in this type of production were so peculiar and so extensive that the State correctly assumed the initiative itself. The Government, founded a company, the Hermann Goering Reichswerke, the business of which is the mining of the low content iron ores which abound in Germany.

Subsidies

One of the oldest and best-known methods of State intervention both here and abroad is the granting of subsidies by the State. Outside Germany, especially in the United States, subsidies are well-known, above all in the shipping industry. Here too private business is not

in a position itself to operate an economic branch in the way the State considers desirable. The same thing holds in Germany for some spheres of production. For example, certain building projects, such as the building of dwellings for agricultural workers or the erection of settlements for industrial workers, are carried out either directly with the help of contributions from the State, or indirectly with the aid of loans granted by the State on extremely favorable terms. Furthermore, the production of nonferrous metals has been supported by State subsidies for many years.

Regulation of raw material consumption

The third group of measures of government production regulation concern raw material consumption. Almost the whole of German industry is subjected to the system of raw material quotas. The essence of quota-fixing lies in the control of imports, which was introduced in 1934 as part of the New Plan for German foreign trade. The control is carried out by 27 control boards, one of which has been set up for each branch of industry. Factories which use imported raw materials are only allowed to purchase a certain volume of raw materials abroad. Normally, the basis of the quota-fixing is the consumption of a certain month. But the importance of the orders which the company has to fill, is also taken into account, export orders being given special consideration.

Apart from this system of import regulation there exist a number of decrees dealing with the use of raw materials. For instance, as a result of the scarcity of wool and cotton it has been decreed that all wool and cotton cloth manufactured in Germany for the domestic market must contain a certain percentage of staple fibre. Certain products, for example doorknobs, may no longer be made of brass. In private residential buildings only a certain amount of construction iron may be used. This system of regulation has been carefully worked out and is not too strictly bureaucratic in its application. In many cases the usual raw materials must be replaced by new synthetic raw materials which can be produced without any import. The use of these new synthetic raw materials does not mean a lowering of the quality of the finished product. On the contrary, the shortage of raw materials leads to new inventions and improvements and even brings about as in the case of buna (synthetic rubber) a technical progress which otherwise would not have occurred.

Regulation of labor supply

When in the course of the last few years unemployment disappeared in Germany and turned into an ever greater shortage of labor, it was impossible for the government to view this passively, since otherwise there was danger that some industrial branches would be compelled to restrict their production. Thus the government had to regulate labor supply and distribution of labor among the various branches. Labor reserves today in Germany can be secured by the employment of additional female labor, later retirement, and employment of superfluous independent workers as wage earners in industry. But these reserves are relatively small so that the question arises how to increase efficiency of labor.

But the problem is not that of merely employing more people, it is the employment of people in industries where they are most needed. Thus it was necessary to take care that in certain industries there was no diminishment of the labor supply. A law was passed recently which makes any change in employment dependent on the approval of the labor office. This law applies to the following branches and industries: agriculture, forestry, mining (excepting coal mining), chemical industry, building industry, building material industry, iron and metal industry. By this the German government hopes that in these important branches the especially urgent needs of the state will be covered.

Increase of production

If you were to ask me what success has been achieved in the sphere of production regulation, I could not do better than to give you a few figures which will show you the extent of the increase of production in Germany. Total industrial production in Germany is today 144% greater than in 1932. Even the peak year of 1929 was exceeded as early as 1936, while today about 30% more industrial goods are produced than in 1929. The production of capital goods has risen much more strongly than has the production of consumption goods, being now four times as great as in 1932 and more than one and a half times as great as in 1929.

Progress in the field of domestic raw material production has been even greater. Iron ore production has risen from an average of 843,000

metric tons for the first 3 months of 1938 to 1,226,000 metric tons in the first three months of 1939. This means an increase of 45%. Furthermore, there has been great progress in domestic oil production. In 1938, staple fibre production has reached 155,000 metric tons as compared with 5,400 metric tons in 1933 and 102,000 metric tons in 1937.

Consumption policy

A number of measures of production regulations, namely all those which affect production of consumption goods, also influence consumption. When, for example, in the interest of a sufficient bread supply it is decreed that all bread should contain a certain amount of maize flour, this is felt by each individual consumer. (Incidentally, in view of the good harvest, this particular measure was abolished on October 1st, 1938.) The same is true of the changes in the textile field and in other fields where the new synthetic materials are gaining a foothold.

The idea of "consumption regulation" is undoubtedly something completely new to you. In the economic textbooks and handbooks nothing will be found on this subject. Of course, the fact that — contrary to general belief — man cannot consume what he desires, is as old as the hills. And even today in the modern economic systems the individual is subjected to many restrictions in his consumption.

In the Middle Ages there were strict provisions as to the clothing worn by the various classes. The Mercantile countries, that is, the countries of the 17th and 18th centuries, restricted consumption for economic reasons, mainly in order to stimulate home industry and to cut down imports. And if you consider your own position you will find none or only a few restrictions in your consumption as the result of State action (you will remember of course the days of prohibition!), but you will probably find great restrictions in consumption as the result of custom, fashion, habit, social viewpoint and, last but not least, industrial production.

It would probably be very hard for you to secure outside the six to eight different forms of straw hats to be found in almost every shop, one which was especially light and comfortable and in a form designed by yourself. This is nowhere manufactured and it would be hard for you to find someone to make you a straw hat according

to your own design and measure. Industrial hat production, which is rationally based on machine production of hats, will certainly not do it. While on the subject of hats, it would be impossible for you to walk around in America, in a round plate-like felt hat, instead of the usual form of felt hat, without being laughed off the street, for that would be contrary to American custom and habit. And finally the fact that each family must spend a certain part of its income on food, the amount being in inverse proportion to the income, is most certainly a restriction of freedom of consumption which weighs quite heavily on the individual.

As you can see, complete freedom of consumption is a rather doubtful matter. Once you have realized this, it will no longer seem absurd to you when I speak of government consumption regulation. In the authoritarian states, a direction of consumption forms part of the totalitarian claim of the State, which subordinates the individual to the higher needs of the nation.

The aim of consumption policy in Germany is to increase consumption and thus raise the standard of living of the entire nation, — especially that of the working class — to adjust consumption to production and to regulate consumption along National-Socialist lines. The aims of consumption regulation are partly of a political nature and partly determined by the economic situation.

It is far harder to regulate consumption than it is to regulate anything else in economy. For every measure of consumption policy affects the largest unit, the entire population. A decree concerning the iron ore producing industry affects only a few hundred firms. However, an appeal to the consumer affects 19 or 20 million households with 75 million people. This fact alone makes special methods necessary for regulation of consumption.

I have hinted at these methods in telling you about the bread supply and textile production. Of a similar nature are certain limitations imposed upon trade, whereby only a fixed amount is allowed to each customer, as for example in the case of fats in months when there is a shortage.

The most important means of regulating consumption is publicity. Of course, this method does not guarantee as sure a success as do legal measures. But it has the great advantage that it gives the con-

sumer the feeling that he is doing something of his own free will and that the only pressure exerted upon him is that which is exerted by his conscience.

Nutrition

Germany is in the unfortunate position that there is a limit to which those foodstuffs the consumption of which increases with a rise in income, such as fats, butter, eggs, etc., can be produced or imported. Thus, the aim has been to influence the consumer to use as much as possible those foodstuffs which are abundant in Germany and to use to a less degree those which are not so plentiful or which have to be imported. At the same time, there was a possibility of directing nutrition in the best ways from the point of view of health. For instance everything possible was done to convince people that for a great part of the population, for example those who do not do hard physical labor, a diet too rich in fats is not especially healthy. Along the same ideas, great success has been achieved in increasing the consumption of fish. Today Germany consumes 26·9 lbs. per head per annum, as as compared with 18·7 lbs. five years ago.

A summary of everything desired in the field of consumption regulation may be found in the food list which the German Institute for Business Research has worked out. The Institute classified the foodstuffs into three groups, those whose consumption should be increased, those whose level of consumption should be maintained, and those whose consumption should be restricted.

The foodstuffs concerned are as follows:

Consumption to be increased	Consumption to be maintained	Consumption to be restricted
potatoes	bread and pastry	beef
sugar	flour	veal
jam	fruit	butter
skimmed milk	lentils	lard
whey cheese	pork	bacon
barley	eggs	margarine
oatmeal	milk	cooking oils and fats
sago	venison	buckwheat
artificial honey	rice	
buttermilk	peas	millet
Harz and Limburg cheese	dried fruits	imported vegetables
vegetables grown in Germany	poultry	cheese with high fat content
fish	cocoa	
mutton	beans	
rabbits	honey	

In Germany we do not have a regular supply of all foodstuffs throughout the year as you do in America. The Institute therefore drew up a list of those foodstuffs which are to be especially pushed in certain months. As an example I shall quote two months: January: pork, geese, fish, cabbage, root vegetables, fruit and vegetable conserves. September: mutton, poultry, mushrooms, pickles, tomatoes, beans, salad, spinach, plums, pears and apples. However, I would like to emphasize that these are not the only goods which may be consumed, but the public is to be educated to adjust its diet to conform more or less with the fluctuations in the supply of certain foodstuffs. Publicity to this end is not carried out by the Institute for Business Research or by the Government direct but by organizations like the Reich Food Estate *(Reichsnährstand)* and private companies.

Another measure serving the same purpose is the Anti-Waste Campaign. The purpose of this is clearly to be seen in its name.

Other fields of consumption

The problems of consumption regulation in other fields are just as great as those in the field of foodstuffs. It is well-known that Germany must import the greater part of the raw materials required for the manufacture of textiles, shoes, etc. As a result of the considerable rise in income in the course of the last five years, the demand for these goods has increased greatly. Thus there arose the danger that consumption would exceed production possibilities. Since it is impossible forcibly to restrict the consumer in this field, the aim was, mainly by means of publicity, to direct consumption in those paths where there was practically no limit to consumption possibilities. Therefore, con-

sumption was directed to all such services as travel, theater, sport, diora, etc. The introduction of the low-priced popular car also means a direction of consumption to a ware which can be produced in quantities sufficient to meet demands.

Of course publicity is not in itself sufficient. For it is precisely in those fields of consumption where the consumer feels himself free, that it is hardest to get him to use his money for the things which it is desired that he buy. Therefore, publicity has been effectively supported by price reductions of all kinds. Here, too, the low-priced popular car is the best example. This will cost about 1,000 RM. and will be much cheaper than any other car. Moreover, the low-priced popular radio set has promoted purchases in this field. This is being continually improved and reduced in price. The Reichsbahn, the German State Railroad, has established reduced fares for trips to all large exhibitions, such as the automobile exhibition, the radio exhibition, sports meetings, etc. so that more people can take advantage of these occasions.

Organized consumption

A special field in consumption regulation is the organization of consumption which is carried out by the large political units, especially the German Labor Front. Here political and social aims correspond to economic aims. Everything is being done to influence the worker to spend his income as much as possible for such things as mean a substantial rise in his standard of living and as little as possible for such things as burden the German foreign exchange balance. Through organization it is possible to effect price reductions, and these price reductions are to make it possible for the worker to do those things which formerly only the better-situated classes were able to afford.

The main factor in the field of organized consumption is the organization *Kraft durch Freude* "Strength through Joy." The following figures and examples show what has been done. Up to 1937, 9 million German citizens had taken journeys and walking trips. The following were taken at random from a list of 350 vacation trips from Berlin which have been arranged for the period from May to September 1938: -

A two-week trip to Upper-Bavaria costs 60·50 RM., while an eight-day stay on the Baltic costs only 31 RM., and a 16 day trip to East Prussia but 41 RM. These costs include everything: railroad fare,

room and board, trips, etc. In the last theater season, 1937/1938, the "Strength through Joy" arranged 7,000 theater performances. For the workers on the autohighways alone some 7,000 concerts and entertainments were arranged. In the last four years 34 million people have participated in the evenings of culture and entertainment arranged by the organization "Feierabend" which I might translate into English as "The Evening Off." Seven million have taken part in sport exhibitions, gymnastics, games, etc. On the island of Rügen a large seaside resort is being constructed, which will offer 20,000 an opportunity for recreation and rest.

Sea trips take German workers to Portugal, Madeira, Norway and Italy. By the end of 1937, over 180,000 had made such trips. Recently the German Labor Front launched its own ships, the *Wilhelm Gustloff* and the *Robert Ley*, which were especially built and fitted for such sea trips. It is planned to build about 20 steamers for this purpose. The comfort and living conditions in that ship are but little different from those in the great liners. Just as on the great luxurious liners, so on the *Wilhelm Gustloff* and the *Robert Ley*, you can have your daily bath in fresh water, enjoy running hot and cold water in your cabin, drink ice water, swim in a large pool, play in the sports room, enjoy all the deck games and dance in the evening or attend some entertainment. The land trips which are taken are not different from those arranged by the North German Lloyd or by the Hamburg-America Line. Yet the whole three weeks only cost the sum of 158.37 RM., including the railroad trip from Berlin to Genoa and the railroad trip from Hamburg to Berlin. The usual rule is that only those workers are allowed to take these trips whose income is not over 300 RM. per month; most of the participants, indeed, earn less than 200 RM. monthly.

All these possibilities of organized consumption, which each year include more people, lead to the fact that the standard of living in Germany cannot be ascertained by the usual methods, and also leads, I would like to say in closing, to the fact that the standard of living in Germany cannot be compared statistically with that in other countries. Therefore, when you read any statistics about the standard of living in Germany, you yourselves will have the impression, after hearing about these trips, etc., that these figures do not give the right picture, since the standard of living in Germany is affected by a number of things which cannot be shown by statistics.

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